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Quo Vadis EU Dairy Production?

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Report Highlights:
Despite the drop of farm-gate milk prices and reduced export demand for dairy commodities, deliveries of milk in the European Union increased by over 2 percent in 2015 and are expected to continue to grow in 2016. Increased milk production is expected to be mainly processed into butter and non-fat dried milk, which remain in demand on the world market and are easy to store under the EU market intervention programs. In early 2016 the European Commission introduced additional market intervention measures to assist farmers to adjust to the new market situation after the termination of the milk quota system.

DISCLAIMER

The PS&D numbers in this report are not official USDA numbers. The numbers are the result of a group effort by the individual FAS EU offices to consolidate PS&D's from all EU-28 member states.

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General Information

Production

2015

In 2015 EU-28 milk production increased by an estimated 2.1 percent as a result of higher inventories of dairy cows and of the termination of the milk quota system. Reduced imports from China, the continuation of the Russian ban on imports of dairy products and the low level of world market prices for dairy products are the major reasons for decreasing farm-gate prices for milk. However, a mild and long fall in 2015 helped farmers to reduce feed costs at the end of the year.

Higher milk production in 2015 resulted in higher output of Non Fat Dried Milk (NFDM), cheese and butter, while the output of Whole Dry Milk (WDM) declined compared to the previous year's level. The Russian import ban on European dairy products limited the growth of cheese production in 2015. The increased share of NFDM and butter in dairy processing in 2015 stemmed from their competitiveness on the world market attributed partly to a cheaper euro versus the U.S. dollar.

2016

It is expected that milk deliveries will continue to grow in 2016, mainly because of higher yields. In the first two months of 2016 milk deliveries in the EU28 increased by 7.4 percent in comparison to the same period of 2015. A high increase of milk deliveries in the first two months of 2016 partly stems from the low reference level of production in 2015 because some farmers limited deliveries of milk in the first quarter of 2015 in order not to produce over quota limitations. In February 2016 the average EU farm-gate milk price was almost 8 percent lower than a year ago and 15 percent lower than the last 5 years' average. The pace of increase of milk deliveries is expected to be slower later in 2016 because of expected continuation of the low level of farm-gate milk prices. In February 2016 the average EU farm-gate milk price was almost 8 percent lower than a year ago and 15 percent lower than the last 5 years' average. The increase in milk production in 2016 is forecast to be directed mostly towards NFDM and butter production, which are expected to remain in demand on the international market and/or can be stored within the EU dairy market intervention programs.

Consumption

In 2016, the higher output of dairy products will be directed mainly to export and the remaining part to domestic consumption or/and public intervention, private storage aid (PSA) and commercial stocks. Higher production of milk in 2016 is expected to result in increased domestic consumption of butter, while consumption of fluid milk, cheese and WDM is expected to remain at the previous year's level. Consumption of NFDM is expected to decline mainly because of the transfer of commercial stocks built in 2015 into the intervention stocks.

Trade

In 2015 exports of cheese stayed at the previous year's level mainly due to increased exports to the U.S. and Japan in the second half of the year. However, exports of cheese were still 8 percent below the level of 2013 before the Russian export ban. It is expected that in 2016 exports of cheese will grow because of the demand from the U.S., Japan and South Korea. Exports of butter in 2015 increased by 35 percent because of competitive prices on the world market, commercial stocks built in 2014 and strong demand from the U.S. In 2016 exports are expected to grow because of continuing demand for butter from the U.S. and Saudi Arabia and for butter oil from China. Exports of NFDM in 2015 increased by 6 percent in comparison to the 2014 level. Exports of NFDM slowed down in the second half of the year because of reduced demand from Algeria and the opening of the opportunity of placing

NFDM in the public intervention stocks. It is expected that in 2016 exports will grow because of higher output and expected increase of demand from China and Indonesia. In 2015 exports of WDM were almost at the previous year's level. Lower exports of WDM to Algeria and Nigeria were partly offset by higher shipments to Oman. It is expected that exports will grow in 2016 due to higher demand from China.

Market Intervention

After the termination of the milk quota system in April 2015, market intervention became the major remaining tool of the European Commission (EC) to stabilize the European dairy market. In response to the continuing Russian export ban, the drop of prices for dairy commodities in the world market, and drop of domestic farm-gate milk prices, the EC opened a public intervention for butter and NFDM, and Private Storage Aid (PSA) for butter, NFDM and cheese. PSA for butter and NFDM has been continuously in place since September 2014. The continuation of difficulties on the dairy market led the EC to extend the PSA program in October 2015, allowing a storage period of up to 365 days, as opposed to maximum 210 days under the one opened in 2014.

For NFDM the annual ceiling of 109,000 MT was already reached in March 2016. As a result of the market price still being lower than the EU intervention price of Euro 1,698 per MT of NFDM, the EC decided to extend the intervention program, however, not at a fixed price but with a tendering system. Companies were asked to submit tenders for the additional tender period from April 2 to April 19, 2016. Bids were received for a total of 22,623 MT of NFDM and the EC set the standard intervention price for these additional bids.

On April 19, 2016, the EC closed the usual intervention purchases of NFDM opened for the 2016 intervention program and announced an additional intervention program which started as of April 20, 2016. Within the additional program the EC increased the 2016 volume limits for the intervention, with the NFDM limit doubled from 109,000 MT to 218,000 MT and that for butter from 50,000 MT to 100,000MT.

As of March 16, 2016, 104,036 MT of NFDM was in intervention stocks and 35,808 MT in the PSA stocks, while stocks of butter offered to private storage amounted to 63,560 MT. Despite pressure from some member states and farm organizations, the EC continues to reject the idea of raising the intervention price level for butter and NFDM.

A total volume of NFDM sold into intervention until April 20, 2016 amounts to 131,623 MT, which includes 109,000 MT of usual intervention plus 22,623 MT for the additional purchases from April 2-19, 2016. On the top of intervention purchases PSA stocks of NFDM on March 17 amounted to 104,036 MT. The total EU stocks of NFDM at the end of April 2016 are estimated at 235,659 MT.

Commodities:

Dairy, Milk, Fluid

Dairy, Milk, Fluid	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	23,481	23,468	23,557	23,559	23,550	23,624
Cows Milk Production	146,500	146,500	148,100	149,600	149,000	151,600
Other Milk Production	4,350	4,350	4,350	4,350	4,350	4,350
Total Production	150,850	150,850	152,450	153,950	153,350	155,950
Other Imports	10	10	10	3	10	3
Total Imports	10	10	10	3	10	3
Total Supply	150,860	150,860	152,460	153,953	153,360	155,953
Other Exports	560	560	660	709	660	720
Total Exports	560	560	660	709	660	720
Fluid Use Dom. Consum.	34,066	34,066	34,000	34,000	34,000	34,000
Factory Use Consum.	116,234	116,234	117,800	119,244	118,700	121,233
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	150,300	150,300	151,800	153,244	152,700	155,233
Total Distribution	150,860	150,860	152,460	153,953	153,360	155,953
(1000 HEAD) ,(1000 MT)						

***Please note**: The figures of milk deliveries to dairies in 2015 and 2016 are based on the data received from the analysts in the EU FAS Offices and the protein-fat balance calculated on the basis of dairy products obtained from the delivered milk.*

Production:

2015

It is estimated that EU milk production in 2015 increased by 2.1 percent from the previous year, compared to the 4.6 percent increase recorded in 2014. The largest delivery increases in 2015 were reported in Ireland, Luxembourg, Belgium, the Netherlands and Slovenia. The increase of production was higher than estimated in the Annual Report published in October 2015, which reflects commitment of the EU dairy farmers to increase production after termination of milk quota system in spite of market signals indicating a need of limiting milk output. The fact that farmers increased production despite lower prices suggests that a number of farmer invested in 2014 in the light of a better market situation and with a view of the termination of the milk quota system and now are forced to produce irrespective of the price situation to ensure liquidity and in order to pay back their loans. Part of the increase of milk deliveries might be also attributed to the EU market intervention programs which allowed building stocks of NFDM and butter.

2016

In 2016 overall milk deliveries are expected to increase by 1.3 percent in comparison to 2015.
The beginning inventories of dairy cows in 2016 were 2 percent higher than in 2015. It is expected that in 2016 inventories of dairy cows will grow in the Netherlands and UK while in other member states (including major producers Germany and France) they are expected to remain stable or decline. In light of dropping farm-gate milk prices, farmers are expected to increase culling rates and hold up expansion of herds until the situation on the dairy market improves. Continued enhancement of genetics in national herds is expected to generate higher per cow milk yield averages in 2016. Although the pace of milk deliveries in 2016 is expected to decrease in comparison to 2015, the volume of milk produced combined with reduced export demand creates a situation of oversupplies of milk on the EU market.

Consumption:

In 2015 fluid milk consumption declined in comparison to the previous year. Consumption is expected to remain at the same level in 2016. Higher milk output in 2016 will be mostly directed to the production of NFDM and butter.

Trade:
In 2015, exports of fluid milk increased by 27 percent in comparison to 2014 driven by strong demand from China for UHT milk. It is expected that exports will continue in 2016.

Commodities:

Dairy, Cheese

Dairy, Cheese	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	32	32	50	27
Production	9,560	9,560	9,610	9,690	9,635	9,790
Other Imports	76	77	65	61	65	60
Total Imports	76	77	65	61	65	60
Total Supply	9,636	9,637	9,707	9,783	9,750	9,877
Other Exports	721	721	700	719	705	757
Total Exports	721	721	700	719	705	757
Human Dom. Consumption	8,883	8,884	8,957	9,037	8,965	9,040
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	8,883	8,884	8,957	9,037	8,965	9,040
Total Use	9,604	9,605	9,657	9,756	9,670	9,797
Ending Stocks	32	32	50	27	80	80
Total Distribution	9,636	9,637	9,707	9,783	9,750	9,877
(1000 MT)						

Production:
In 2016 EU-28 cheese production is expected to increase by one percent due to the higher availability of raw milk. It is expected that higher production will be directed partly to growing exports and partly to expanding private storage stocks.

The production of cheese in 2015 was higher than estimated in the Annual Report published in October 2016 because of increased availability of raw milk which occurred in the last quarter of 2015.

Consumption:
It is expected that in 2016 the consumption of cheese will remain flat because the consumers already absorbed a surplus of cheaper cheese available on the domestic market in the second half of 2014 and in 2015 as a result of the introduction of the Russian export ban. In 2016 higher cheese output will be mostly exported and partly directed into PSA stocks.

Trade:
Exports of cheese in 2016 are expected to increase by an estimated 5 percent, mainly because of diversification of export destinations. However, the overall level of exports in 2016 will be still below the pre-Russian export ban level. It is expected that the United States will remain the major export

destination, followed by Japan, Switzerland and Saudi Arabia. Cheese imports are projected to remain within the established import quotas.

Stocks:

In September 2015 the EC announced the opening of a new PSA scheme for 100,000 MT of cheese and all storable cheese products. National allocations of PSA for cheese based on production within the last three years were announced on October 1, 2015. As of March 16, 2016 the level of PSA stocks of cheese amounted to 29,292 MT. Italy, the Netherlands, Sweden and the UK are major users of the program. It is expected that PSA stocks will continue to grow towards the end of 2016 because any unused allocations of PSA will be available for redistribution after three months to those countries that want to make greater use of the scheme. So far seven countries (Italy, Ireland, France, Lithuania, the Netherlands, Sweden and UK) requested for additional redistribution of the quota. The PSA for cheese amounts to Euro 15.57/MT of cheese plus Euro 0.4/MT/day. The program applies to cheese stored for 60 - 210 days.

Commodities:

Dairy, Butter

Dairy, Butter	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	24	24	22	22	50	51
Production	2,250	2,250	2,310	2,335	2,340	2,380
Other Imports	52	52	13	27	10	10
Total Imports	52	52	13	27	10	10
Total Supply	2,326	2,326	2,345	2,384	2,400	2,441
Other Exports	142	142	190	192	210	220
Total Exports	142	142	190	192	210	220
Domestic Consumption	2,162	2,162	2,105	2,141	2,110	2,151
Total Use	2,304	2,304	2,295	2,333	2,320	2,371
Ending Stocks	22	22	50	51	80	70
Total Distribution	2,326	2,326	2,345	2,384	2,400	2,441
(1000 MT)						

Production:

In 2016 butter production is expected to increase by 2 percent as a result of continuing export demand and higher output of NFDM, for which butter is a residual product. Higher export demand stems from competitive prices for European butter on the world market. The re-opening of PSA in April 2016 by the EC created an opportunity for processors to take advantage of this program and produce butter destined for PSA or transfer commercial stocks into the PSA stocks.

Consumption:

It is estimated that in 2016 the butter consumption number will increase because of higher output and reduced prices.

Trade:

In 2016 exports of butter are expected to increase in comparison to the previous year's level due to higher output and competitive export prices. Reduced prices make EU28 butter competitive on the U.S. market. In 2015 the EU28 exported 17,000 MT of butter to the United States. In the first two months of 2016 exports to the U.S. amounted to 3,000 MT, a 34 percent increase in comparison to the same period of 2015. Other export destinations for EU butter are Saudi Arabia and Egypt, while butter oil is mainly exported to China. In 2015 imports within the EU import quota set aside for New Zealand amounted to 8,000 MT, 78 percent less than in 2014.

Stocks:

The EC's PSA scheme for butter has been continuously in place since September 2014. In April 2016 the program was extended till September 2016. According to the Milk Market Observatory data, on March 16, 2016 the PSA stocks of butter amounted to 63,560 MT (mainly used by the Netherlands, Germany, France, Ireland and Belgium). For butter, the EU aid is Euro 18.93 per MT of storage for fixed storage costs, plus Euro 0.28 per MT per day of contractual storage. There is no ceiling on the volumes that can be stored.

As of March 16, 2016, no butter has been sold to the intervention stocks because the EU market price was higher than the butter buying-in price which is set at Euro 221.75/100 kilograms. The Common Agricultural Policy (CAP) limits the butter that can be sold into intervention to 30,000 MT, however, this amount was temporarily increased to 50,000 MT as part of the emergency package for the current dairy crisis and doubled on April 20, 2016 to 100,000MT. High ending 2015 PSA stocks combined with higher milk deliveries and increased ceiling for the PSA program are expected to lead to the further increase of stocks through 2016.

Commodities:

Dairy, Milk, Nonfat Dry

Dairy, Milk, Nonfat Dry	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	17	17	80	62
Production	1,550	1,550	1,670	1,710	1,710	1,800
Other Imports	2	2	3	3	2	3
Total Imports	2	2	3	3	2	3
Total Supply	1,552	1,552	1,690	1,730	1,792	1,865
Other Exports	646	648	705	686	760	760
Total Exports	646	648	705	686	760	760
Human Dom. Consumption	889	887	905	982	932	955
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	889	887	905	982	932	955
Total Use	1,535	1,535	1,610	1,668	1,692	1,715
Ending Stocks	17	17	80	62	100	150
Total Distribution	1,552	1,552	1,690	1,730	1,792	1,865
(1000 MT)						

***Please note**: The estimate of NFDM production in 2015 is based on the FAS Warsaw fat-protein balance of milk deliveries and output of dairy products.*

Production:

Output of NFDM is expected to grow by 5 percent in 2016 resulting from higher supplies of milk and increased drying capacity mainly in Germany and France. Continuing demand from export markets is expected to stimulate NFDM output in 2016. The PSA program available since September 2014 and public intervention purchases opened in 2015 by the EC also stimulated production of NFDM because growing supplies of milk are mainly processed into NFDM and butter.

Consumption:

Higher NFDM production in 2016 is expected to be directed mainly into export channels, public intervention and PSA stocks. Domestic consumption is expected to decrease in 2016 because part of commercial stocks accumulated in 2015 will be transferred into the PSA stocks.

Trade:

It is expected that due to higher availability exports of NFDM will increase by 11 percent in 2016. The increase of exports in 2016 is expected to result from continuing competitive prices and increased EU28 production. The major export destinations for NFDM are Algeria, Egypt, China, Indonesia, Philippines and Thailand.

Stocks:

The EC's PSA scheme for NFDM has been continuously in place since September 2014. In April 2016 the program was extended till September 2016. According to the Milk Market Observatory data in March 2016 PSA stocks of NFDM amounted to 35,808 MT.

In March 2016, the usual 109,000 MT limit for 2016 was reached because the EU intervention price of Euro1,698 per MT of NFDM was attractive to sellers due to low level of market prices. Companies were asked to submit tenders for the additional tender period from April 2 to April 19, 2016. Bids were received for a total of 22,623 MT of NFDM and the EC set the standard intervention price for these additional bids.

On April 19, 2016, the EC closed the usual intervention purchases of NFDM opened for the 2016 intervention program and announced an additional intervention program which started as of April 20, 2016. Within the additional program the EC increased the 2016 volume limits for the intervention, with the NFDM limit doubled from 109,000 MT to 218,000 MT.

It is expected that purchases for public intervention will continue towards the end of 2016 resulting in a stock increase by another 90,000 – 100,000 MT because of higher NFDM output.

Commodities:

Dairy, Dry Whole Milk Powder

Dairy, Dry Whole Milk Powder	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	720	720	680	710	690	720
Other Imports	1	1	2	4	1	4
Total Imports	1	1	2	4	1	4
Total Supply	721	721	682	714	691	724
Other Exports	390	390	390	391	395	400

Total Exports	390	390	390	391	395	400
Human Dom. Consumption	331	331	292	323	296	324
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	331	331	292	323	296	324
Total Use	721	721	682	714	691	724
Ending Stocks	0	0	0	0	0	0
Total Distribution	721	721	682	714	691	724
(1000 MT)						

Production:
In 2016 WDM production is expected to increase due to higher milk availability and growing export demand.

Consumption:
In 2015 domestic use of WDM is expected to remain at the previous year’s level.

Trade:
It is estimated that in 2016 exports of WDM will increase as compared to 2015 because of higher supplies and growing export demand. In 2015 EU-28 exports of WDM were at the previous year’s level.

Policy:

The European Commission is under strong pressure from member states and farmer’s organizations demanding the implementation of quick and effective measures which would stop the continuing decrease of farm-gate milk prices. Dairy farmers from across Europe are putting pressure on politicians and EU leaders to introduce measures which would help the dairy sector. Many of them are desperate because without new crisis management tools large numbers of farms will be forced to close.

The European Commission tried to mitigate the decrease of farm-gate milk prices by opening PSA for NFDM and butter in September 2014 and continuing the program through 2015 and into September 2016. In addition, for the first time since 2008, the EC implemented an old tool of subsidizing intervention stocks for NFDM when market prices dropped below the intervention price.

On April 12, 2016 the EC enforced new rules for voluntary milk supply management allowing for producer organizations, inter-branch organizations in the dairy sector to set up schemes compensating members for cutting output, for a limited period. This new regulation created a reaction of member states that the compensation should be rather covered from the EU’s CAP budget than from the national budgets.

NFDM is the most sensitive product among dairy commodities because EC uses it to stabilize the internal dairy market and prevent further decline of farm-gate prices of raw milk. The total EU stocks of NFDM at the end of April 2016 are estimated at 235,659 MT. Continuation of the policy of extending purchases within the public intervention later in 2016 and into 2017 may lead to the accumulation of large stocks of NFDM, which may have a detrimental effect on the EU’s dairy market in a longer ran.

Although imports of milk powders by China later in 2016 are perceived as a panacea for the problem of oversupplies of milk in the EU, it may turn out that there is a line of suppliers competing for the Chinese market and offering reduced prices.

One year after the termination of the dairy quota system in the EU, many dairy market analysts have a problem predicting the development of the EU dairy industry within next few months. The EU dairy farmers continue to increase production after the termination of the milk quota system in spite of market signals indicating a need of limiting milk output. Many of them try to maintain financial liquidity by increasing the volume of production. Part of the increase of milk deliveries might be also attributed to the EU market intervention programs, because processors have an option of placing excess of delivered milk into the public intervention or PSA stocks of NFDM and butter. The EC appointed a group of experts to prepare a report how to resolve the crisis in the EU's dairy sector, but with sometimes contradictory factors influencing current situation on the dairy market, the first question they will have to answer is "Quo Vadis EU dairy production?".

End of the report.